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ABSTRACT

This semiannual report to Congress summarizes the activities of the Department of Education's Office of Inspector General (OIG) for the 6-month period ending September 30, 1997. The OIG gave Congressional testimony regarding the modernization of student-financial-assistance-information programs, the Loan Consolidation process, the Federal Direct Student Loan Program, and the Eisenhower Mathematics and Science Education Program. With regard to postsecondary education, the OIG conducted audits of student-financial-assistance programs, investigated athletic scholarship fraud, and prosecuted students who fraudulently claimed enrollment in foreign schools. The report also describes departmental operations and audit-quality intiatives for the period, and makes legislative proposals for reauthorization of the 1998 Higher Education Act. Reporting requirements, statistical summaries, and a glossary are included. (LMI).

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Office of Inspector General

Semiannual Report to Congress

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U.S. Department of Education
Office of Inspector General

Semiannual Report to Congress

No. 35

April 1, 1997 – September 30, 1997

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

October 31, 1997

Honorable Richard W. Riley
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit this *Semiannual Report* on the activities of the Department's Office of Inspector General (OIG) for the six-month period ending September 30, 1997. Submission of this report is in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees.

This period, the OIG continued to work with ED managers and Congress to ensure that legislative proposals for reauthorization of ED programs contain provisions that will increase both the accountability of program participants and the programs' responsiveness to the identified needs of their customers: the nation's students and taxpayers. From developing a detailed compendium of proposals for reauthorization of the Higher Education Act based on our audit and investigative experience, and discussing them in a collaborative effort with Departmental and congressional officials; to issuing audit reports on key issues in Rehabilitation Act and Elementary and Secondary Education Act programs; to testifying on critical concerns in postsecondary, elementary and secondary education—in each of these areas, the OIG has been in the forefront of efforts to ensure the integrity and responsiveness of Education Department programs.

I look forward to working with you and Department managers in the days ahead, as we pursue our unceasing efforts to achieve educational excellence and equality of educational opportunity for the nation's learners, and the highest levels of program efficiency, effectiveness and integrity for the nation's learners and taxpayers.

Sincerely,

Thomas R. Bloom

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

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EXECUTIVE SUMMARY

Significant Activities and Accomplishments

This period, the Office of Inspector General (OIG) continued its ongoing efforts to assist Department of Education (ED) managers and officials in assuring that taxpayer-funded federal education programs and operations are implemented with efficiency, effectiveness, integrity, and accountability. Highlights of our efforts follow.

Reauthorization

The OIG has worked to ensure that proposals for reauthorization of significant ED program legislation contain provisions that will increase the accountability of ED fund recipients and address key issue areas that have been identified in the course of OIG audit and review efforts. The OIG has committed about 70% of its audit and investigative resources to reviewing and commenting on student financial assistance (SFA) programs because these programs, historically, have been a repository of significant problems. Highlights of our efforts follow.

Higher Education Act of 1998 (HEA)

During this semiannual reporting period, the OIG devoted significant resources to provide input for the 1998 reauthorization of the Higher Education Act (HEA). To assist Congress in its task of reauthorizing HEA, the OIG prepared proposals for amendments to the HEA that we believe can greatly improve the integrity of the SFA programs and save taxpayers and students substantial amounts of money.

Proposals sent to Congress

We compiled our proposals into a report sent to members of Congress in July. In a collaborative effort, we discussed our proposals with Department officials and met with staffers of the various educational committees to discuss our proposals in detail, and to answer any relevant questions.

These proposals, based on OIG audits, investigations, and other data about fraud, waste and abuse in the SFA programs, were organized into four major areas:

- Institutional eligibility and enforcement
- Student eligibility
- Loan programs
- Law enforcement

Each proposal set forth our position, the current law, the recommended change to the law and our rationale for the proposed change. (Details surrounding the four major areas are provided in Abstract 5, *"Legislative Proposals for Reauthorization of the Higher Education Act."*)

Rehabilitation Act

This period, the OIG issued reports designed to assist the Department and Congress in the reauthorization of the Rehabilitation Act. Our reports addressed such issues as the adequacy of the program allocation formula and the need for performance measures to evaluate administrative and program success more effectively.

Upon learning that Congress intended to reauthorize the Rehabilitation Act for only three years, without making significant changes to the Act, the OIG recommended that Congress insert a data research provision in the proposed legislation. Specifically, we proposed that Congress require research by the Secretary concerning a new Vocational Rehabilitation (VR) program funding-allocation formula, and that this research be completed prior to the next authorization period.

To further assist Congress in its subsequent authorization of the Rehabilitation Act, we plan to issue a report that will provide a synopsis of OIG's work on the Department's VR program.

Elementary and Secondary Education Act

The OIG issued two audit reports covering Elementary and Secondary Education Act (ESEA) programs this period. One report addressed how Department officials ensure that Title VII Bilingual Education Program objectives are being met. This report also examined if grant-recipient schools are teaching limited-English proficient students in English as well as in their native language(s).

The second ESEA report examined the Department's effectiveness in increasing state education agency (SEA) and local education agency (LEA) awareness and understanding of the new Title XIV flexibility provisions. This report also reviewed the SEAs' role in ensuring better distribution of information and technical assistance concerning the flexibility provisions.

Bilingual Education

Our audit of the Bilingual Education Program identified a need for additional monitoring by the Department's Office of Bilingual Education and Minority Languages Affairs. Without appropriate monitoring, program officials are unable to ensure that bilingual program objectives are being met, that grant dollars are being used appropriately or that the grants are fulfilling the Department's capacity-building policy to ensure that schools can continue to offer bilingual education after federal assistance is reduced or eliminated.

The Department generally agreed with our recommendation to develop and implement a monitoring program and has taken steps to implement such a program.

Our audit further concluded that teachers in grant-recipient schools consistently used English in the bilingual classes as required by the grants. Consequently, we determined that student native languages were not being used excessively and that controls over language usage appear adequate.

Title XIV flexibility provisions

In another audit, the OIG provided the Department with a "midterm" assessment of four major, cross-cutting flexibility provisions in Title XIV: waivers, consolidated plans, consolidation of administrative funds, and the use of unneeded funds. We found that some SEAs did not always encourage local education agencies (LEAs) to implement Title XIV provisions or provide guidance on how to do this.

The audit also suggested that some LEAs did not always know about or have sufficient guidance to implement the provisions. Although the Department had issued extensive guidance on waivers and SEA consolidated plans and applications, it had not issued specific gui-

dance on the consolidation of administrative funds or use of unneeded funds. The Department advised us that it would issue such guidance, which was issued in September 1997.

Congressional Testimony

Student financial assistance information systems modernization

At the request of the House Subcommittee on Postsecondary Education, Training, and Life-Long Learning, Committee on Education and the Workforce, the Inspector General (IG) testified about student financial assistance information-systems modernization. The IG stated that the Department faces significant challenges in meeting the mandates of the Clinger-Cohen Act and in modernizing its SFA program systems. In his testimony, the IG discussed four principal issues that are integral to the success of the Department's systems modernization effort which need to be addressed to correct the weaknesses that have resulted in the current ineffective systems. (See Abstract 3, *"Congressional Testimony."*)

Loan Consolidation Process, Federal Direct Student Loan Program

The IG testified before the House Subcommittee on Postsecondary Education, Training, and Life-Long Learning, Committee on Education and the Workforce, about the Federal Direct Student Loan Program loan consolidation process. The IG's testimony focused on the circumstances surrounding the suspension of student loan consolidations and the urgent need in the SFA programs for the Department to appoint a Chief Operating Officer who possesses experience in managing large computer-based financial services operations. The IG also stressed the Department's need to hire qualified technical staff to write well-designed systems contracts and rigorously monitor those contracts. (See Abstract 3, *"Congressional Testimony."*)

Dwight D. Eisenhower Mathematics and Science Education Program

The Deputy Assistant Inspector General for Audit (DAIGA) testified before the House Subcommittee on Oversight and Investigations, Committee on Education and the Workforce, on the Department of Education's Eisenhower Mathematics and Science Program. The DAIGA's testimony focused on the OIG's May 1992 management improvement report titled *Improvements Needed to Assure the Dwight D. Eisenhower Mathematics and Science Education Program Meets the Objectives of National Education Goal 4 and the Eisenhower Act*. The DAIGA testified that during our audit work, we found that the program was implemented generally in accordance with the applicable regulations. However, the Department needed to improve its application review and approval process, its monitoring of state agency programs, and its performance reports and assessment of program results. (See Abstract 3, *"Congressional Testimony."*)

Postsecondary Education

Direct School Loan Audit

This period we completed seven additional Direct Loan Program school reviews as part of our Naional Direct Loan Schools Audit. We issued a draft audit report summarizing the results of 16 school audits. We received the Department's response to our draft in late September and anticipate issuing this summary report in the next reporting period.

Other SFA Entity Audits

Our audits found significant problems that needed improvements relating to:

1) identification of estimated Pell Grant overpayments totaling $2.6 million at St. Louis University based on the financial aid administrators' use of professional judgment to reduce family income information;

2) financial aid administrators' use of professional judgment to reduce family income by certain expenses not included in the statutory needs analysis formula resulting in $775,000 of excessive Pell awards at 19 schools we visited; and

3) a finding that the integrity of the Pell Grant Program can be enhanced by eliminating advance funding.

(See Abstract 1, *"Significant Audits and Audit-Related Activities."*)

Investigative Efforts

We have been actively focusing our investigative efforts in the development of large-scale proactive investigative projects. These projects are designed to address unique and egregious fraudulent activity against the Department's student aid programs. At this time, we have two proactive investigative projects ongoing. These projects are looking into Pell Grant fraud involving scholarship athletes at various Division I NCAA schools and student loan fraud involving individuals attending foreign-based schools, with particular emphasis being placed on foreign medical schools. The projects are described below.

Federal student aid college athletes project

The OIG has begun a national project to review the use of Title IV funds within NCAA-sanctioned college athletic programs. This project was developed after a successful conclusion of the OIG investigation at the University of Miami (Florida) where approximately 80 student athletes, assisted by an employee of the university student athlete department, fraudulently received Pell Grants totaling approximately $220,000.

Information obtained from this investigation, similar OIG cases, the U.S. General Accounting Office, and other sources indicated that there may be widespread problems of Title IV funds going to ineligible student athletes. In response to this potentially serious problem, the OIG initiated a review of Title IV disbursement practices at three colleges and uni-

versities. A number of other schools are slated to be reviewed in the near future. School officials and/or student athletes who are found to have received Title IV funds illegally will be recommended to the appropriate United States attorney's office for prosecution action similar to the University of Miami case.

Foreign schools project

Over the last several years, the OIG has been investigating and successfully prosecuting individuals who defrauded the Federal Family Education Loan Program by falsely claiming to have attended foreign medical schools. As a result of our investigative efforts, we identified program areas having a systemic deficiency with respect to the determination of borrower eligibility. For example, our investigative efforts have identified instances in which individuals have received disbursements without having submitted a Free Application for Federal Student Aid (FAFSA) to ED's Central Processing System (CPS). The CPS determines an official Expected Family Contribution (EFC) and performs matches against various databases. Edits developed as a result must be resolved before the disbursement of Title IV aid can be authorized.

As an illustration of our continuing efforts, we are reporting in this *Semiannual Report* the arrest and indictment of Rollie Romero-Eaton on 34 felony counts of bank, wire and mail fraud worth almost $130,000 involving his falsely claimed enrollment at the University of Kent in Canterbury, England *(page 25)*. We are also reporting the indictment of Michael E. McSheehy in Rochester, New York, on three counts of student financial assistance fraud relating to his attendance at Ross University School of Medicine in Dominica, West Indies *(page 26)*.

Departmental Operations

Financial Statement Audit

Pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, the Department prepared consolidated financial statements to present its financial position and results of operations as of September 30, 1995 and 1996. The Department finalized its 1996 consolidated financial statements in July 1997 and the auditors issued their reports the following month.

Auditors unable to express opinion

The report of the independent public accountants, Price Waterhouse, LLP, indicated that they were not able to express an opinion on the fiscal year 1996 consolidated financial statements because the Department's documentation of the basis for certain estimates did not provide the auditors sufficient evidence to conclude whether the amounts were materially over- or understated. The estimates affected were the liabilities for loan guarantees under the Federal Family Education Loan (FFEL) Program, the allowance for uncollectible defaulted guaranteed loans, the allowance for direct loan subsidy costs, and the related guaranteed and direct loan subsidy expenses. These estimates were also an issue for fiscal year 1995.

As a result of special efforts, three additional opinion issues identified in the fiscal year

1995 accountant's report did not affect the fiscal year 1996 opinion. These issues relate to receivables for defaulted guaranteed loans, the reserve funds maintained by guarantee agencies, and fund balances with the U.S. Treasury. These are reflected in the fiscal year 1996 internal control report.

The fiscal year 1996 report on internal controls disclosed material weaknesses and reportable conditions in the internal control structure and its operation. The material weaknesses relate to the following issue areas:

- Subsidy estimates for the Department's loan programs
- FFEL Program — guaranty agency oversight

The reportable conditions relate to the following areas:

- Fund balances with Treasury
- Student financial assistance programs
- Controls over automated systems

The report on compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards (see Abstract 1, *"Significant Audits and Audit-Related Activities"*).

Government Performance and Results Act

During this reporting period, the OIG provided input on the development of the Department's Strategic Plan. The OIG suggested that the Department require program managers to assert to the reliability of the data sources to be used for determining progress toward meeting the performance measures. The OIG is beginning an audit to assess the Department's system for implementing the Results Act and for the collection and reporting of performance data. This is the first in a series of audits planned to address the collection and reporting of performance data.

Quick Reaction Reports to Management

It is OIG policy to provide timely information for use by decision makers. Accordingly, we are issuing alternative products such as action memoranda, management alerts, position papers, testimony, etc. and providing alternative services such as management reviews, inspections, and consulting/advisory services. Some examples are:

Action memoranda

During this period, we issued 18 action memoranda to management, the majority in the postsecondary (12) and systems (5) areas. An additional product dealt with a proposal for Vocational Rehabilitation.

Some of our more important products in the postsecondary area focused on the following areas needing management's attention: direct loan programs, program reviews, processing of audit reports and resolving audit findings, and the recertification process. The focus of our products in the ADP systems area was direct loan servicing contracts and the status of the Department's independent computer systems security reviews. (See Abstract 4, *"Action Memoranda,"* for a listing of action memoranda issued this period.)

Management reviews

During the reporting period, we completed two management reviews. In our *Telecommunication Resources Review*, we noted that the Department had implemented corrections previously agreed to. These included the following:

- Principal offices now receive monthly credit-card billings to ensure that users and supervisors monitor charges.
- Employees are periodically reminded that personal telephone calls are prohibited except those the agency deems are necessary in the interest of the Government.
- The Department has identified and disconnected about 1,200 unused telephone lines which had been costing the Department approximately $432,000 per year.

Audit Quality Initiatives

Cooperative Audit Resolution and Oversight Initiative

As reported in previous *Semiannual Reports*, we have been working with an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. Other offices participating in the CAROI initiative include the Office of Elementary and Secondary Education, the Office of Vocational and Adult Education, the Office of Special Education and Rehabilitative Services, the Office of the General Counsel, and the Office of the Chief Financial and Chief Information Officer.

CAROI Team Accomplishments

The CAROI team and ED program officers produced a question-and-answer document for national distribution that addresses the new flexibility provisions under the Elementary and Secondary Education Act (ESEA). This guidance will assist grantees of programs under the ESEA in using the flexibility provisions in Title XIV.

The CAROI team also was involved in the Department's Data Coordination Group. This group is considering more efficient and effective approaches to data collection, coordination and usage.

For additional information on the CAROI team's activities and accomplishments, see Abstract 1, *"Significant Audits and Audit-Related Activities."*

Audit Guidance and Quality of Nonfederal Audits

This period, we issued two audit guides on attestation engagements applicable to student financial assistance programs, and continued an audit quality project for work performed for proprietary schools by independent public accountants (IPAs). These guides are described below.

Audit Guide, Compliance Audits (Attestation Engagements) of the Federal Student Financial Assistance Programs at Participating Institutions

This publication, issued in July 1997, updates the June 1995 SFA audit guide, which IPAs must use when performing compliance audits at any institution or institution servicer participating in or administering any aspect of Title IV HEA programs (except for public colleges, state and local universities, and nonprofit institutions that obtain an audit in accordance with Office of Management and Budget Circular A-133).

Agreed-Upon Procedures Guide (Attestation Engagement) Exceptional Performance Status for Federal Family Education Loan Program at Participating Guaranty Agencies and Their Servicers

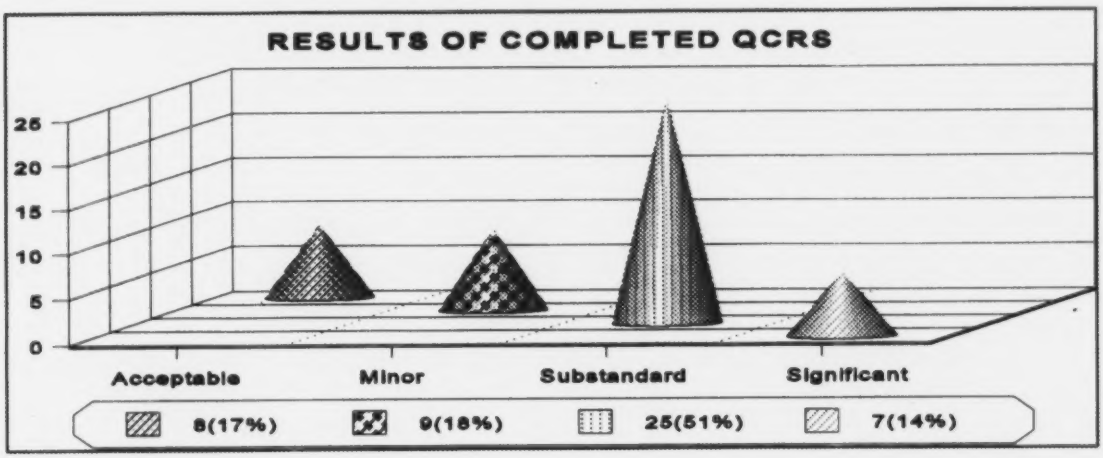
Issued in August 1997, this guide is to be used by the practitioner to perform agreed-upon procedures relating to management's assertion about compliance performance percentage as regards collection activities on defaulted loans, timely claim payments, and timely reinsurance filings.

Audit Quality Project

This fiscal year, we initiated an audit-quality project that focuses on work performed by IPAs on audits of student financial assistance programs.

For this project, we are performing quality control reviews (QCRs) of 74 audits performed by 36 IPAs who audit a significant number (10 or more) of proprietary schools in a given year. The 36 IPA firms performed 1,145 of the 4,698 (24%) SFA audits submitted for fiscal year 1995. To date, we have completed 49 of these QCRs and have finished the field work for the other 25. Of the 49 QCRs completed, 25 were substandard and 7 had significant inadequacies.

The chart below depicts the results for the 49 completed QCRs.



Substandard performance requires major changes or the correction of major deficiencies in the audit work. We plan to evaluate the correctve action taken on the substandard audits and take appropriate action. In addition, we expect to make referrals to the State Boards of Accountancy and to the American Institute of Certified Public Accountants for possible disciplinary action for those we conclude have significant inadequacies.

P.L. 95-452 Reporting Requirements

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Section 5(a)(10) Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period

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Section 5(a)(11) Significant Revised Management Decisions*

Section 5(a)(12) Significant Management Decisions with Which OIG Disagreed*

*We have no instances to report.

Abstract 1

SIGNIFICANT AUDITS AND AUDIT-RELATED ACTIVITIES

April 1 – September 30, 1997

NOTE: The amounts reported by auditors for the reports described below are subject to further review and final determination by Department officials.

★ Student Financial Assistance Programs ★

Education Loan Services, Inc. Failed to Calculate Interest Rebates Owed to the Secretary Estimated at $1,014,000

ACN 01-58052 September 30, 1997

This audit was conducted upon the receipt of information that Education Loan Services, Inc. (ELSI), a major loan servicer in the Northeast, was going out of business. Our audit disclosed that lenders serviced by ELSI understated interest rebates owed to the Secretary, and that ELSI failed to determine numerous interest rebates owed to the Secretary, for the quarter ended March 31, 1995, by an estimated $1,014,000.

The Higher Education Amendments of 1992 required variable interest rates on all Stafford loans disbursed to new borrowers on or after October 1, 1992; and rebates of excess interest (the difference between the variable rate and applicable fixed-rate) on any new loans disbursed to existing borrowers. Numerous lenders, including those serviced by ELSI, failed to comply with this law. Accordingly, the Technical Amendments of 1993 allowed lenders to convert loans previously requiring rebates to a variable rate of interest, and determine an interest rate adjustment (rebate) for all quarters for which a rebate was required under prior law. Rebates were to be made by crediting the borrower's account or, for periods during which the Secretary paid interest, by adjustment to the ED Form 799 due no later than the quarter ending March 31, 1995. In its attempt to comply with the latter amendments, ELSI excluded numerous loans requiring variable rate conversion and rebates, resulting in the understatements.

We recommended that the Secretary notify all lenders serviced by ELSI of the erroneous exclusion of loans requiring variable rate conversion and rebates. Those lenders should be required to identify all excluded loans and provide evidence that the rebates were paid, or otherwise pay the required rebates to ED, by an adjustment to their next ED Form 799, or the borrower, by an adjustment to the principal balance of the borrower's account.

□ □ □

University of Massachusetts – Amherst Needs to Improve its Administration of the Federal Direct Loan Program

ACN 01-70002 September 30, 1997

Our report cites deficiencies in the University of Massachusetts's (U-Mass) administration of the Direct Loan Program. We found that U-Mass needs to:

1) report all loan information to the servicer;

2) correct and timely report disbursement dates;

3) correctly report adjustment and cancellation information and student status changes;

4) conduct monthly reconciliations;

5) strengthen computer controls; and

6) develop written policies and procedures for testing of new and enhanced application programs.

U-Mass generally agreed with most of the findings.

□ □ □

Audit of the William D. Ford Direct Loan Program Administered by Keiser College of Technology

ACN 04-70002 May 30, 1997

Our audit identified some weaknesses related to the reporting of loan disbursement information to the Loan Origination Center (LOC) in award year 1995-96. We recommended that the Office of Postsecondary Education (OPE) instruct the institution to:

1) work with the 3rd-party servicer to ensure that all backlogged disbursement data for the 1995-96 award year has been reported to the LOC;

2) monitor the 3rd-party servicer transmission of any remaining loan disbursement data for award year 1995-96 to ensure that it is reported timely to the LOC; and

3) regularly monitor the disbursement dates on loan origination records to ensure that they reflect the actual disbursement dates recorded on the student ledger cards.

□ □ □

Consumer Electronics Training Center, Chicago, Illinois Audit of the Administration of Student Financial Assistance Programs

ACN 05-60010 April 24, 1997

We found that Consumer Electronics Training Center (CETC) did not meet the standards of administrative capability contained in 34 CFR 668.16 because it violated many of the applicable regulations. Our audit identified several significant administrative deficiencies, which led us to conclude that CETC was unable to demonstrate that it could adequately administer the programs. The deficiencies involved:

1) failing to report Pell disbursements and changes in disbursement amounts;

2) disbursing student financial assistance (SFA) funds improperly;

3) failing to pay refunds;

4) failing to pay its 25 percent share of federal supplemental educational opportunity grants; and

5) recording accounting transactions incorrectly.

We recommended that the Office of Postsecondary Education (OPE) terminate CETC's eligibility to participate in the SFA programs, and instruct CETC to return $186,720 of Higher Education Act program funds and submit documentation to correct the 1994/95 Student Payment Summary.

□ □ □

Academy of Court Reporting, Cleveland, Ohio
Audit of the Administration of the William D. Ford Federal Direct Loan Program

ACN 05-70005 July 1, 1997

Our review identified weaknesses related to:

1) student status changes;

2) database accuracy;

3) administrative and fiscal procedures; and

4) database security.

These weaknesses could adversely affect the Academy's administration of the Direct Loan Program. We advised OPE to instruct the Academy to:

1) establish and implement notification procedures to ensure that it reports student status changes to the Direct Loan Servicer accurately and timely;

2) establish and implement adequate internal controls over the Direct Loan Program to ensure database accuracy;

3) strengthen administrative controls and fiscal procedures to ensure that it administers the Direct Loan Program in compliance with all program requirements; and

4) develop, distribute and implement written computer security policies and procedures.

□ □ □

Interstate Business College, Fargo, North Dakota,
Audit of Administration of the William D. Ford Federal Direct Loan Program

ACN 05-70006 July 24, 1997

Our review identified weaknesses related to:

1) reporting student status changes and disbursement amounts and dates;

2) data base accuracy;

3) administrative requirements; and

4) data base security.

These weaknesses could adversely affect the college's administration of the Direct Loan program. We recommended that OPE instruct the college to:

1) establish and implement notification procedures to ensure that it reports student status changes and disbursement amounts and dates to the Direct Loan Servicer, and maintains records that support submission changes and loan information;

2) establish and implement adequate internal controls over the Direct Loan Program to ensure data base accuracy, correct existing errors in the data base, and transmit the corrections to the Direct Loan Servicer;

3) strengthen administrative controls and fiscal procedures to ensure that it administers the Direct Loan Program in compliance with all program requirements; and

4) develop, distribute, and implement written computer security policies and procedures.

□ □ □

Financial Aid Administrators' Use of Professional Judgment

ACN 06-60004 July 31, 1997

Our review disclosed that some financial aid administrators (FAAs) have abused the use of professional judgment by allowing students or whole classes of students to reduce family incomes by certain expenses not included in the statutory needs analysis formula. We estimate that unreasonable and inadequately documented professional judgment actions at the 19 schools visited resulted in 804 students receiving about $775,000 in additional Pell grants for award years 1994-95 and 1995-96.

Our review disclosed that FAAs:

1) deducted expenses from family income that were nonessential and benefited whole classes of students, and

2) made allowances for living and other expenses even though those allowances had already been considered in the needs analysis system.

We also found that FAAs did not always adequately document their actions.

In our opinion, the lack of specific provisions in the Higher Education Act of 1965 and the inability of the Department to regulate professional judgment may have contributed to FAAs' allowing nonessential expenses.

We recommended that the Department seek changes in the HEA to:

1) prohibit FAAs from including nonessential expenses when adjusting data elements used in the Expected Family Contribution calculation, and

2) grant the Secretary the authority to regulate the professional judgment provisions.

We also recommended that the Department clarify professional judgment guidance provided to schools and identify schools that use professional judgment frequently, classify them as high risk, and use this information in its risk analysis when scheduling schools for monitoring.

□ □ □

Eliminating Advance Funding Would Enhance the Integrity of the Federal Pell Grant Program

ACN 06-60006 August 28, 1997

The Department is required to advance requested Pell Grant funds to schools before students begin classes. We found that this process has resulted in accounting and reconciliation difficulties and placed Pell Grant funds at risk. The process requires numerous adjustments (our review identified over 900,000 totaling $840 million for award year 1994/1995) and lacks a mechanism to ensure that all necessary adjustments are made. As a result, the Department's records are inaccurate and the Pell Grant program is more susceptible to fraud, waste and abuse.

We recommended that the Department petition Congress to eliminate the advance funding provision of the Higher Education Act and redefine an eligible student as one who has actually started classes. If the changes in the Act are made, the Department should provide funds to schools for each payment period only after students start classes.

□ □ □

Professional Judgment at St. Louis University

ACN 06-70003 July 30, 1997

Our audit found that St. Louis University's use of professional judgment resulted in a *de facto* substitution of the statutory needs analysis formula with the university's own formula. According to the university's financial aid administrator, the university's practice was to reduce family income by excessive living and other expenses without determining if the expenses were necessary and constituted a special circumstance. We found that the university used professional judgment for 2,220 (46 percent) of its 4,862 Pell Grant recipients during award years 1994-95 and 1995-96. Based on our sample of 139 professional judgment actions, we estimate that 2,016 students received Pell Grant overpayments totaling $2,599,709.

We recommended that the Department require the university to:

1) establish procedures that would provide for the use of professional judgment only after:

   a) determining on an individual student basis that special circumstances exist, and that the expenses were not already included in the statutory needs analysis formula; and

   b) documenting on an annual basis the reason for each professional judgment action; and

2) refund $2,599,709 in Pell Grant funds disbursed as a result of the unreasonable professional judgment actions.

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Technical Trades Institute, Colorado Springs, CO
Direct Loan Program Audit

ACN 07-70003 August 29, 1997

Our review identified weaknesses in three areas as follows:

1) School officials had not established adequate security measures over computer software and equipment. Management controls over access to the Direct Loan software and data were not adequate, and appropriate separation of duties had not been formally established. Records were not appropriately safeguarded due to weaknesses in data back-up procedures and physical security of computer equipment.

2) Discrepancies existed between disbursement amounts and dates recorded on student accounts and in loan records.

3) School staff did not always follow program guidelines. They made disbursements to ineligible students, without valid promissory notes. Disbursements were not always made or reported timely. Refund allocation policies were not followed, and transaction dates for adjustments were incorrect.

To correct these weaknesses, we recommended that the Office of Postsecondary Education instruct the school to:

1) activate password-protection features in the Direct Loan software, require periodic password changes, formally establish and monitor separation of duties for Direct Loan processing, arrange for appropriate storage of Direct Loan back-up data, and relocate network computer equipment;

2) review student accounts and loan records to identify discrepancies and take corrective actions, establish a policy to ensure consistent dates are used, and establish a procedure to periodically reconcile internal records with electronic loan records;

3) develop, distribute and follow policies and procedures for Direct Loan Program administration, establish effective management controls to ensure disbursements are only made to eligible students, after receipt of a signed promissory note;

4) ensure that disbursements are made and reported timely;

5) follow refund allocation policies; and

6) use effective dates to record adjustments.

We also identified a weakness in the regulations for returning cash generated by downward adjustments or cancellations of Direct Loan disbursements. We issued an action memorandum to the Assistant Secretary for Postsecondary Education requesting that he clarify the timeliness requirement for the return of these funds. The Assistant Secretary's response stated that these funds were defined as "idle cash" and that schools would be advised that these funds must be disbursed or returned within seven days.

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Audit of the Direct Loan Program Administered by University of California, Riverside, Riverside, California

ACN 09-60007 April 25, 1997

The report disclosed that the university:

1) improperly changed disbursement dates on PLUS loan records transmitted to the Direct Loan Servicer;

2) had records that contained discrepancies in disbursement dates;

3) lacked adequate data-processing controls over access and changes to production software;

4) did not reconcile school records with the Direct Loan Servicer's records on a timely basis; and

5) failed to notify the bank that its account contained federal funds.

We recommended that OPE take steps it deems necessary to ensure that the university has fully implemented appropriate corrective action to address the above findings.

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Audit of the Direct Loan Program Administered by the University of Advancing Computer Technology (formerly CAD Institute), Phoenix, Arizona

ACN 09-70007 August 26, 1997

Our review disclosed several administrative deficiencies. We found that the university had not taken the necessary steps to ensure that all loan disbursements were properly recorded in the Direct Loan databases. Comparison of school records to the EDExpress cash database identified about $430,000 of loan disbursements that were shown in school records but not recorded in the database. Comparison of school records to the Education Department Financial Accounting and Reconciliation System (EDFARS) identified about $970,000 of disbursements that were shown in the school records but not recorded in EDFARS. According to university officials, the unrecorded disbursements occurred during its conversion from the DOS to the Windows version of the Department's EDExpress software. During our fieldwork, the university initiated actions to identify the unrecorded disbursements.

We also found that the university did not always transmit loan information timely, and that school records contained inconsistent transaction dates; received funds for ineligible students, and was not always timely in returning those funds; and was not always timely in reconciling school records with the Direct Loan Servicer's records.

We recommended that OPE immediately provide the university with the technical assistance and information needed to promptly process the unrecorded loan disbursements and resolve EDExpress software problems.

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The Massachusetts Corporation For Educational Telecommunications Must Use a Restricted Indirect Cost Rate For Charging Indirect Cost to Federal Grants

ACN 01-60008 September 4, 1997

Our review found that, during the fiscal year ending June 30, 1995, the Massachusetts Corporation for Educational Telecommunications (MCET) charged indirect costs to ED's grants using a general indirect cost rate. However, MCET is a state agency and grantee under a program with a statutory requirement for using a restricted indirect cost rate. We recommended that the Secretary require MCET to:

1) comply with the restricted indirect cost provisions when accumulating the indirect cost pool;

2) eliminate from the pool $991,552 in salaries and related fringe benefits;

3) add to the base the costs removed from the indirect cost pool;

4) remove from the pool, and add to the base, costs associated with the identified unallowable personnel costs cited (i.e. travel, membership and dues, meetings, and conferences); and

5) recalculate and apply the finalized restricted indirect cost rate to the federal grants

We also found that MCET allocated salaries and fringe benefits for two employees to the indirect-cost pool based upon estimates. Because MCET could not substantiate the estimates, we were unable to verify the accuracy of $36,138 allocated to the indirect-cost pool.

We recommended that the Secretary require MCET to either provide ED with documentation that will demonstrate that the unsupported salary allocations to the indirect cost pool were accurate, or eliminate the $36,138 from the indirect-cost pool and add these costs to the base. In the future, MCET should not charge to the indirect-cost pool salaries that cannot be supported by cost studies and/or time sheets.

★ Elementary, Secondary and Other Education Programs ★

Star Schools Program Grantee's Project Management Was Seriously Deficient

An Audit of the Star Schools Grant as Administered by the Central Educational Telecommunications Network

ACN 03-50200 September 30, 1997

Our audit disclosed that Central Educational Telecommunications Network (CETN) was not in compliance with the requirements of the grant. We found that CETN's management of the project was seriously deficient. CETN failed to establish an adequate financial management system, demonstrate fiscal responsibility, and provide sufficient services to the four partner cities through which the project was administered.

In view of the seriousness of the deficiencies noted during our audit, we recommended that ED initiate action to debar the grantee and its principal employees from further participation in federal programs.

We also recommended that ED require the grantee to:

1) provide proper documentation to support its matching expenditure under the grant agreement, and make the appropriate refund for any grant funds received for which proper matching (25% requirement) cannot be established;

2) refund $316,457 identified as used for unallowable purposes;

3) provide proper documentation to support $1,733,887 and $343,880 respectively identified as unsupported and inadequately supported and refund portions for which proper documentation cannot be provided; and

4) obtain an A-133 audit for the grant period.

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Review of Monitoring Controls Used to Ensure Fulfillment of Title VII Bilingual Education Grant Program Objectives

ACN 04-60152 June 30, 1997

We planned and initiated this audit in response to concerns identified during our overall survey of the Improving America's Schools Act (IASA). The IASA survey report identified concerns that centered on whether the bilingual programs are meeting the objectives of the IASA as well as the objectives of the individual grants. The report also identified Congressional concerns about possible excessive use of the students' native language.

Our audit identified a need for improving the grant control environment to include additional monitoring by OBEMLA and the state educational agencies (SEAs). Without monitoring, officials cannot ensure that:

1) bilingual program objectives are being met;

2) Title VII grant dollars are being used appropriately by grant officials and the project directors; and

3) grants are fulfilling the Department's capacity-building policy to assure that the schools can continue to offer bilingual education after federal assistance is reduced or eliminated.

Ultimately, the students may not learn the new language as needed.

We recommended that OBEMLA work with appropriate officials to:

1) revise Title VII of the IASA to clarify the need and requirement for federal-level monitoring of reviews of grants; and

2) develop and implement a monitoring program to provide for thorough on-site reviews of Title VII grants and thorough documentation of monitoring results.

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State and Local Education Agencies Need More Technical Assistance To Take Full Advantage of the Flexibility Provisions of Title XIV of the Improving America's Schools Act

ACN 04-70001 August 20, 1997

Our review found that state and local education agencies (SEAs and LEAs) need more guidance or technical assistance to take full advantage of the flexibility provisions of Title XIV of the Improving America's Schools Act. The review disclosed that, despite ED's efforts, SEAs did not always encourage LEAs to implement the Title XIV provisions or provide guidance on how to implement them. In addition, LEAs did not always know about or have sufficient guidance to implement the Title XIV provisions.

We recommended that ED:

1) issue specific guidance on the consolidation of administrative funds and the use of unneeded funds;

2) continue to improve its technical assistance relationships with each SEA; and

3) continue to evaluate the effectiveness of its actions to increase SEA and LEA awareness and understanding of the Title XIV provisions. We also recommended that OESE's Regional Service Teams work with SEAs on using the Title XIV provisions.

The Department subsequently issued specific guidance on the consideration of administrative funds and the use of unneeded funds on September 19, 1997. While our audit focused on recommendations to the Department, we recognize that SEAs have a critical role in the implementation of the Title XIV provisions at the state and local levels. Thus, we are also suggesting that SEAs work to ensure better distribution of information and technical assistance about the Title XIV provisions.

Finally, the implementation of the Title XIV provisions ultimately depends on the LEAs. Thus, we are suggesting that they ensure better distribution of information received and ask for assistance from the SEA and ED as needed.

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Four Factors May Have Contributed to the High Employment Outcome Rate at the Texas Rehabilitation Commission

ACN A09-60004 September 15, 1997

Data reported by state vocational rehabilitation (VR) agencies show that the Texas Rehabilitation Commission (TRC) has been more successful than other large state agencies in achieving or maintaining employment for individuals with disabilities. In an effort to identify factors that may have contributed to TRC's success, we compared TRC's VR program with the program administered by the California Department of Rehabilitation (DOR). Our comparison found significant differences in the characteristics of the clients served which explained, in part, TRC's ability to achieve a higher employment outcome rate. However, the entire difference between the state-agency employment outcome rates was not explained by these differences in client characteristics. Three other factors that may have contributed to TRC's success are its use of performance measurements, support provided to counselors, and source of matching funds.

Because it is difficult to measure the individual or collective impact that these four factors had on TRC's ability to achieve employment outcomes for its clients, we did not include a recommendation that the Rehabilitation Services Administration (RSA) require state agencies to implement a specific TRC policy or procedure, or suggest that state agencies control which clients receive services solely for the purposes of achieving a higher rate of employment outcomes. However, we did recommend that RSA encourage state agencies to explore TRC's practices when designing improvements to their VR programs. In addition, we suggested that RSA may want to use information in the report to target areas for technical assistance provided to state agencies and to identify areas for its own future research projects.

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A New Formula Is Needed to Equitably Allocate Vocational Rehabilitation Program Funds to States

ACN 09-53006 July 18, 1997

The report disclosed that the current statutory formula used to allocate Vocational Rehabilitation funds to the states contains a number of provisions that result in states receiving funding that is not proportionate to the number of individuals with disabilities residing in the state. The amount received by states from the 1996 appropriation ranged from $101 to $327 per individual with a work disability.

We recommended that the Department request that Congress replace the current formula with one that uses the number of individuals with work disabilities in each state as the primary factor in allocating Vocational Rehabilitation Program funds. The Department should derive the number of work-disabled from census data or information from other independent sources. In addition, we suggested that other factors, such as performance and cost of providing services, be considered for inclusion in the formula.

★ Departmental Management ★

Office of Special Education and Rehabilitative Services
Secretarial Review Process in Need of Change

ACN 11-50201 August 22, 1997

Our audit of the Office of Special Education and Rehabilitative Services' (OSERS) Secretarial review process recommended that the review process be replaced with an enhanced monitoring system of state special education program complaint processes. Authorized by the implementing regulations of the Individuals with Disabilities Education Act (IDEA), the Secretarial review process provides complainants with an avenue for federal review of disputes regarding final decisions by state education agencies pertaining to the education of children with disabilities.

Our review found that the Secretarial review process provides minimal benefit. OSERS grants only a small percentage of the requests, and ultimately, only a few complainants receive any realized benefit. Further, the Department does not issue final decisions on Secretarial review requests in a timely manner. The Department has routinely taken longer than one year to process these requests.

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The Report of Independent Accountants on the U.S. Department of Education
Fiscal Year 1996 Department-wide Financial Statements

ACN 17-60002 July 31, 1997

Pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, the Department prepared consolidated financial statements to present its financial position and results of operations as of September 30, 1995 and 1996. The Department finalized its 1996 consolidated financial statements in July 1997 and the auditors issued their reports the following month.

The report of the independent public accountants of Price Waterhouse, LLP, indicated they were not able to express an opinion on the consolidated financial statements because the Department's documentation of the basis for certain estimates did not provide the auditors sufficient evidence to conclude whether the amounts were materially over- or understated. The estimates affected were the liabilities for loan guarantees under the Federal Family Education Loan (FFEL) Program, the allowance for uncollectible defaulted guaranteed loans, the allowance for direct loan subsidy costs, and the related guaranteed and direct loan subsidy expenses.

In addition, certain amounts reported by the Department in its fiscal year 1995 consolidated financial statements were not sufficiently supported by reliable accounting information and certain differences between financial statement amounts and underlying accounting records could not be adequately explained. These amounts included the estimated liabilities for loan guarantees under the FEEL Program, the receivables for defaulted guarantee loans, the reserve funds maintained by guarantee agencies, and fund balances with U.S. Treasury.

The report on internal controls disclosed material weaknesses and reportable conditions in the internal control structure and its operation. The material weaknesses relate to the following issue areas:

- Subsidy estimates for the Department's loan programs
- FFEL Program — guaranty agency oversight

The reportable conditions relate to the following areas:

- Fund balances with Treasury
- Student financial assistance programs
- Controls over automated systems

The report on compliance with laws and regulations disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

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Cooperative Audit Resolution and Oversight Initiative

As reported in previous *Semiannual Reports*, we have been working with an intra-departmental team on a wide-ranging project known as the Cooperative Audit Resolution and Oversight Initiative, or CAROI. The goal is to improve education programs and student performance at state and local levels through the better use of audits, monitoring and technical assistance. Because of the number of inquiries and requests from states to participate in the CAROI process, we are working with the Department to further streamline and institutionalize the process.

The following are the team's accomplishments during the reporting period.

#1: Create and Maintain a Dialogue with States

The CAROI team and ED program officers produced a question-and-answer document for national distribution that addresses the new flexibility provisions under the Elementary and Secondary Education Act (ESEA). This guidance will assist state and local education agencies (SEAs and LEAs) in implementing the new provisions as well as provide criteria for auditors in their review of SEAs and LEAs.

This period the team addressed the Association of Government Accountants' National Professional Development Conference in Phoenix, Arizona, and a local chapter meeting of the Association of Government Accountants in Atlanta, Georgia. In addition, the team is in the process of establishing an Internet address to facilitate communication with our CAROI partners and the dissemination of information concerning the CAROI process. During the next reporting period, the team will make presentations at each of the three regional Improving America's Schools conferences.

#2: Work with States to Resolve Open Audits or Audits Under Appeal

This period the team reached an agreement with the Commonwealth of Pennsylvania to begin the most wide-ranging initiative attempted under the CAROI process. Several years of unresolved audit findings affecting six Department program offices and multiple Pennsylvania agencies will be addressed during the next reporting period. It is hoped that a comprehensive agreement between the Department and Pennsylvania can be accomplished by February 1998. To assist with the Pennsylvania effort, and provide guidance in the publication of a procedural handbook, the team has contracted with a consultant who has experience in past CAROI projects.

#3: Improve the Single Audit Process

The team continued to work with Department program staff and an OMB task force to revise the OMB Compliance Supplement that is used by auditors for audits of Department programs.

The team also worked with state auditors from Washington and Georgia on a pilot project under provisions of the Single Audit Act Amendments. The goal of the pilot project is a comprehensive report on how federal programs are managed at the local level. At present, the Department receives little information from the single audits that are conducted at most LEAs. These pilot projects would give federal program managers information on how federal programs operate at the local level.

#4: Coordinate Audits, Monitoring and Technical Assistance

The CAROI team continues to work with Department managers in integrated reviews and other state program monitoring efforts. CAROI team members are working with program officials to ensure the link between audits, monitoring and technical assistance.

The CAROI team also is participating as a member of the Department's Data Coordination group, which is considering more efficient and effective approaches to data-collection coordination and usage. CAROI members are working to ensure that information on oversight activities is available to individuals who need it to further promote the efficient and effective use of federal funds.

Abstract 2

SIGNIFICANT PROSECUTIVE ACTIONS RESULTING FROM OIG INVESTIGATIONS

April 1, 1997 – September 30, 1997

★ School Owners, Officials and Employees ★

Toldos Yakov Yosef Seminary

Brooklyn, New York

CHAIM BERGER, chairman of the board of directors
DAVID FRIESEL, financial aid officer
KALMEN STERN, DAVID GOLDSTEIN, JACOB ELBAUM and BENJAMIN BERGER, administrators/staff

Six individuals were charged in a 21-count indictment unsealed in Manhattan federal court, Southern District of New York, with participating in several fraudulent schemes to obtain tens of millions of dollars through federal and state grant, loan and subsidy programs. The indictment, which includes charges of conspiracy, mail fraud, wire fraud and embezzlement, alleges that the defendants — Chaim Berger, chairman of the board of directors of Toldos Yakov Yosef Seminary (TYY), Brooklyn, New York; Avrum David Friesel, TTY's financial aid officer, and Kalmen Stern, David Goldstein, Jacob Elbaum and Benjamin Berger, members of TTY's administration, faculty or staff — for the benefit of the Village of New Square, an incorporated village in Rockland County, New York:

1) created entities through which federal and state program funds could be obtained;

2) submitted fraudulent documentation to establish the eligibility of New Square residents and others to participate in these programs;

3) used the funds obtained from these programs for improper purposes; and

4) concealed their fraud by using false names and nominee bank accounts.

A joint investigation by the Department of Education (ED)/OIG, the Small Business Administration (SBA) OIG, the Department of Housing and Urban Development (HUD) OIG, and the Internal Revenue Service developed evidence that the defendants assisted in enrolling thousands of New Square residents and others in postsecondary education programs in order to obtain tens of millions of dollars in Pell Grant, Tuition Assistance Program, and other student financial assistance (SFA) funds. Most of the students were enrolled in "independent study" programs that permitted them to study under the guidance of "mentors" without attending classes.

The indictment alleges that the defendants used fraudulent means to conceal the fact that many of the students were ineligible to receive financial aid because they were not seeking a certificate or degree or because they were still in high school. Some of the students allegedly obtained Pell grants for 10 years or more without ever receiving a degree or certificate reflecting their completion of a program of study. In

addition to the education-related charges, the defendants were also charged with misappropriation of SBA and HUD funds.

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Midwest Career College

Indianapolis, Indiana

ROSE KING/TARTER, owner

Rose King/Tarter, owner of Midwest Career College, Indianapolis, Indiana, pled guilty to a one-count information charging her with student financial aid fraud. The scheme at the now defunct proprietary school defrauded the Department of Education of over $130,000 in guaranteed student loan (GSL) and Supplemental Loans for Students (SLS) funds. Our investigation disclosed that the subject failed to notify a lender when students dropped out of the school and took monies for these individuals to which she was not entitled.

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Camden Beauty College

San Jose, California

NEENA KHANNA, owner

An information was filed against Neena Khanna, owner of Camden Beauty College, San Jose, CA, charging her with one count of student financial aid fraud. Our investigation developed evidence that Khanna falsified various documents on "no show" students and received Pell Grant funds for these students. She also is alleged to have falsified a Free Application for Student Aid on a student whose mother had paid the full cost of attendance, and obtained a Pell grant in this student's name. Khanna further allegedly received Pell Grant funds for students who were receiving Regional Occupation Funding. The investigation also disclosed that Khanna failed to make refunds either to the students or to the school's federal funds account on any of these students.

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Romar International

Titusville, Florida

SUE MCNAMARA, owner
JOANN BRATTON, registrar
TERRY DIEHL, registrar

Sue McNamara, former district manager of Romar International, Titusville, Florida, was sentenced to 6 months house arrest, 2 years supervised release and 50 hours community service and was fined $50 and ordered to pay restitution of $8,588 to the Department of Education after pleading guilty to one count of bank fraud. Joann Bratton, former registrar at Romar International, was sentenced to 4 months house arrest, 2 years supervised probation and 50 hours community service and was ordered to pay restitution of $2,481 to ED after pleading guilty to the same offense. Terry Diehl, who was also a registrar at Romar, pled guilty to one count of bank fraud and will be sentenced in January 1998.

A joint OIG/FBI investigation revealed that McNamara and Bratton conspired with others in a scheme to defraud ED and various banks by enrolling ineligible students at Romar and falsely certifying the students' eligibility on federal student loan applications. The fraudulent activities identified to date amount to approximately $800,000. The investigation is continuing and other indictments are anticipated.

Romar International, owned by Rose Manzo, operated nine beauty schools in the state of Florida from 1981 through 1994. Five of the nine schools subsequently closed as a result of the OIG investigation, emergency action by the Office of Student Financial Assistance, and finally, the decision by an admin-

istrative law judge to terminate the school's eligibility and impose a fine. The decision was upheld by the Secretary of Education. The remaining four schools later closed.

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Cosmetology Training Center
Minneapolis, Minnesota
JAY SCHREUER, owner

Jay Schreuer, former owner of the Cosmetology Training Center, was sentenced in U.S. District Court, District of Minnesota, to serve one day in jail and five years probation and ordered to pay $60,000 restitution after pleading guilty to a one-count information charging him with bank fraud. An OIG investigation disclosed that, from June through September 1992, Schreuer defrauded three banks — First Bank Eden Prairie, Norwest Bank Mankato, and Norwest Bank Rochester — by executing a check-kiting scheme using federal financial accounts which resulted in a loss of $219,000. (*Semiannual Report No. 32*, page 17)

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Minerva Del Rio, adjunct professor
Mercy College
New York, New York

In the U.S. District Court, New York, New York, Minerva Del Rio pled guilty to a criminal information charging her with two felony counts . One of the counts charged Del Rio with conspiring to obtain federal student financial assistance funds through fraud, false statements, forgery and the submission of false Social Security numbers. The other count charged Del Rio with conspiring to enter into marriages for the purpose of evading provisions of immigration laws.

Investigation disclosed that between 1991 and January 1997, Del Rio assisted aliens in submitting false applications for student loans and grants through the financial aid office of Mercy College, Bronx, New York. Del Rio was employed as an adjunct professor at Mercy College between 1990 and 1995. Investigation also disclosed that between 1972 and January 1997, Del Rio arranged sham marriages between aliens and United States citizens.

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CALIFORNIA CRIME RING
PLUS loan fraud
Priscilla's Professional Services
Los Angeles, California
PRISCILLA ANN HAMILTON aka PRISCILLA PINSON, owner
with DEBRA LORRAINE BRADFORD, VALERIE RENEE GREEN, LASHAWN RENEE LUTCHER, JABALI ABAYOMI OLIVER
YOLANDA CARTHON, CLARENCE WEEKS, RICKY GRIFFIN, SHARLETTE WHITE, JAMES SHEAD, and TROY ANTHONY RAY

Eleven people pled guilty or were convicted during a federal criminal trial in a massive student loan, IRS tax and Housing and Urban Development benefits fraud scheme. The conspiracy group operated out of a Los Angeles storefront and caused at least $1 million in losses.

A multi-agency investigation involving the use of undercover agents, search warrants, both ground and air surveillance, and consensual telephone monitoring uncovered the California fraud ring. Hamilton and others under her direction bribed a Social Security Administration employee and California Department of Motor vehicle employees in order to obtain fraudulent Social Security numbers and drivers licenses.

The scheme involved using the fraudulently obtained SSNs and drivers licenses to complete and submit over 30 applications for federal Parent Loans for Undergraduate Students (PLUS loans) on behalf of indi-

viduals who were not attending the college, as well as federal tax returns and applications for HUD housing benefits. The ring used the school codes for the processing of student loans from the University of Southern California, Grambling State University, University of Houston and many other well-known universities.

★ Civil Actions ★

Richard Sevilla, student
Gina Sevilla, parent
Astoria, New York

Richard Sevilla, a Dartmouth College student, and his mother, Gina Sevilla, were ordered by the United States District Court in Concord, New Hampshire, to pay a civil judgment in the amount of $30,000. The judgment was ordered in response to a civil complaint charging the Sevillas with making multiple false statements on SFA applications.

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Belford A. Blackman. doctoral candidate
Salamanca, Spain

A civil lawsuit brought by the United States against former Middlebury College student Belford Blackman was settled this period in the amount of $105,446. The lawsuit alleged that Blackman defaulted on 21 federally guaranteed student loans and misrepresented the extent of his prior federal student loan debt on the application forms.

Blackman received a Bachelor of Arts degree from Middlebury College in 1956 and a Masters of Arts from Middlebury in 1958. In the summer of 1987, Blackman again pursued graduate studies at Middlebury and began obtaining student loans from the Vermont Student Assistance Corporation (VSAC). He then attended the University of Northern Iowa and the University of Salamanca in Spain. From March 1988 through July 1992, Blackman received 21 student loans guaranteed by the federal government totaling over $99,000, using the majority of these loans to pursue a doctorate degree at the University of Salamanca in Spain.

The United States alleged that on 16 of his student loan applications, Mr. Blackman misrepresented the amount of the federally guaranteed student loans he had previously received. Because the Department of Education imposes a limit on the total amount of federally guaranteed student loans for which one is eligible, Mr. Blackman's misrepresentations enabled him to receive approximately $15,000 more in student loans than he would have otherwise been eligible.

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First Tennessee Bank
Memphis, Tennessee

First Tennessee Bank, National Association (FTB) agreed to pay $2.75 million to settle a pending lawsuit filed against the bank in U.S. District Court in Knoxville, Tennessee. The agreement settled a suit alleging that FTB falsified its collection efforts before submitting a total of more than $1.3 million in claims to ED for payment. In addition to the settlement, FTB previously repurchased more than $200,000 in loans, and ED and the IRS have collected nearly $1 million from the defaulted borrowers in aggressive post-default collections.

The settlement is the result of a joint OIG audit/investigative effort, which developed evidence that typed collection histories submitted as documentation for due diligence efforts contained fabricated information. Additionally, forged forbearance documents were discovered for more than $200,000 in loans. This falsification of collection histories caused FTB to misrepresent its collection efforts and thereby submit false claims for reinsurance to ED during 1987 and 1988.

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William Carey College

Hattiesburg, Mississippi

JAMES W. EDMONDS, president
BARBARA JONES, consultant

William Carey College; the college's president, James W. Edwards; and Barbara Jones, the college's consultant, agreed to pay the United States Government $345,366 in order to settle claims under the False Claims Act, associated with a Title III, Development Grant provided by ED.

A two-year OIG investigation revealed that in May 1994, the college, Edwards and Jones falsely represented in an ED grant application that certain academic programs and services were assessed and developed by a "Long Range Planning Committee" and a "Long Range Strategic Plan" with input from all segments of the college community. The grant application further falsely represented the existence and work product of a "Management and Student Information Task Force" and a "Faculty Development Committee."

In addition to repaying $345,366 to the United States, the college agreed that it would not receive an additional $985,534 which it was otherwise scheduled to received under the grant.

★ Other Investigative Cases ★

Reingold & Associates, Inc.

Rio Piedras, Puerto

JAIME L. VAELLO CARMONA, owner and president

Jaime Vaello Carmona, owner and president of Reingold and Associates, pled guilty to one count of student financial aid fraud after being charged by a federal grand jury in the District Court of Puerto Rico. A joint investigation by ED/OIG and the Federal Bureau of Investigation (FBI) found evidence that Vaello devised a scheme to defraud the Perkins Loan Program of $50,000. The investigation disclosed that Vaello continued to represent to the Perkins Loan debtors of the University of Puerto Rico (UPR), Mayaguez and Rio Piedras branches, that he was an authorized collection agent after his contracts with the UPR terminated. Vaello continued to receive payments from the Perkins Loan debtors and, between September 1993 and October 1995, failed to remit to UPR approximately $50,000 in collected funds.

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Rollie Romero-Eaton

Boston, Massachusetts

OIG Foreign Schools Project

A federal grand jury in Boston, Massachusetts, indicted Rollie Romero-Eaton on 34 felony counts of bank fraud, wire fraud and mail fraud in relation to his alleged submission of fraudulent Federal Family Education Loan Program (FFELP) applications. The indictment charges that between August of 1994 and May of 1997, Romero-Eaton defrauded the Department of Education, federally insured banks and guaranty

agencies of $129,500 by forging enrollment certifications and falsely claiming enrollment at the University of Kent in Canterbury, England.

Romero-Eaton had been arrested by OIG agents in Irving, Texas, based upon a criminal complaint filed in the District of Massachusetts. This case is part of the OIG's ongoing foreign schools investigation.

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Anne Marie Debarros-Goncalves, former student

University of Massachusetts

Dorchester, Massachusetts

Anne Marie Debarros-Goncalves was sentenced in U.S. District Court, Boston, Massachusetts, to three years probation and was ordered to pay restitution of $15,085. Debarros-Goncalves, a former student at the University of Massachusetts, previously pled guilty to a one-count information charging her with student loan fraud. In addition, she was convicted of SFA fraud in connection with false citizenship claims on Title IV applications.

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Sherolyn Denise Larkin

Detroit, Michigan

Sherolyn Denise Larkin was indicted in the Eastern District of Michigan on 21 counts of mail fraud and 4 counts of SFA fraud. From approximately 1989 to the present, Larkin has owned and operated a business in Detroit, Michigan, and most recently in Huntsville, Alabama, the purpose of which, according to evidence developed by investigators, was to falsify SFA applications.

According to investigators, Larkin charged her customers a fee of between $275 to $350 for her assis-tance in supplying universities and the government with false income information on behalf of her student/parent customers. To support the low income figures reported for the students and/or the parents, Larkin allegedly supplied false income tax returns to the universities, thereby enabling the students to receive federal grants for which they would have otherwise been ineligible.

At this time, our investigation has uncovered approximately 300 customers of Denise Larkin, as well as evidence that approximately $600,000 in Pell and Supplemental Educational Opportunity Grants has been fraudulently disbursed due to Larkin's activities.

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Michael E. McSheehy

Rochester, New York

OIG Foreign Schools Project

Michael E. McSheehy was indicted by a federal grand jury in Rochester, New York on three counts of student financial assistance fraud. The three felony counts relate to the alleged fraudulent receipt of Stafford loans for attendance at Ross University School of Medicine in Dominica, West Indies. McSheehy, according to the indictment, used a deceased person's Social Security number on the questioned loan applications and failed to disclose prior student loan defaults. This investigation was developed under the OIG's foreign schools project.

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Donald Dover

Grand Rapids, Michigan

Donald Dover was sentenced in the Western District of Michigan to 78 months in prison and 5 years of supervised release, fined $10,000, and ordered to pay $481,942 in restitution. An OIG investigation disclosed that, from the fall of 1994 through May 1997, Dover applied for $41,332 in federal guaranteed and/or direct student loans. Investigators found that Dover engaged in a scheme to defraud the SFA programs, obtaining the proceeds of the funds and not using them for educational purposes relating to attendance or continual attendance at Michigan State University as required. Dover registered for classes, applied for and obtained SFA, and then withdrew shortly after receiving the excess funds. During this period he only earned 3 credits.

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Stephen Wesle Kiser

Birmingham, Alabama

Stephen Wesle Kiser pled guilty in the Northern District of Alabama to a one-count criminal information of making false statements on Pell Grant and federal student loan applications. Kiser enrolled as a student at Jacksonville State University, Jacksonville, Alabama, and received federal student financial aid from the institution using the false identities of the following deceased individuals: Joey Roddy, Ronnie Mobley, Robert Stepps, and Steve Baker.

The OIG investigation revealed that Kiser used numerous false identities to obtain approximately $76,000 in federal SFA during the period 1991 through 1997 in at least three different schools.

★ UPDATE on Previously Reported Cases ★

Programming and Systems, Incorporated

Cleveland, Ohio

IRWIN MAUTNER, former chairman and chief executive officer
RONALD SUNDICK, former national financial aid director

Irwin Mautner, former chief executive officer of Programming and Systems, Inc. (PSI), was sentenced to 21 months of incarceration and 3 years of probation and fined $25,000, and was ordered to perform 1,500 hours of community service to educationally or financially deprived students. The corporation was fined $500,000 and was also ordered to make restitution in the amount of $500,000. In addition, Ronald Sundick, PSI's former national financial aid director, was sentenced to three years probation and fined $10,000.

In November 1996, Mautner pled guilty to a three-count federal indictment that charged him, Sundick, the corporation with mail fraud, conspiracy and making false statements. The indictment alleged that the defendants engaged in a scheme to defraud the Department of Education by using improper recruiting practices and deceiving PSI's accrediting agency in order to maintain the schools' eligibility for Title IV funds. During the time period charged in the indictment, the PSI schools received in excess of $140 million of Title IV funds. PSI was a publicly traded corporation that owned and operated proprietary schools in Ohio, New York, Michigan, Indiana, Florida, North Carolina, Pennsylvania, Maryland and Washington, D.C. (*Semiannual Report No. 34*, page 26 and *Semiannual Report No. 33*, page 17)

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Interamerican Business Institute

Chicago, Illinois

DIEGO AGUIRRE, owner

Diego Aguirre, former owner of Interamerican Business Institute (IBI), was found guilty in the Northern District of Illinois of three counts of mail fraud and seven counts of misapplication of student loan funds. Aguirre was indicted in January 1996 after an OIG investigation revealed that between 1989 and 1992, Aguirre converted to his own use the proceeds of 232 student loan checks worth approximately $291,490. The checks were payable to IBI students who either had decided not to attend the school or had attended a short period of time, and the funds were to be returned to the lending institution. To conceal his actions, Aguirre closed the school and destroyed the files of the students whose checks he cashed. Aguirre failed to appear on the date of his sentencing, and is now a fugtive. (*Semiannual Report No. 33*, page 24, and *Semiannual Report No. 32*, page 18)

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WKG-TV Video Electronics College

Baton Rouge, Louisiana

CHARLES RAYMOND COLEMAN, owner

Charles Raymond Coleman, owner of WKG-TV Video Electronics College, Baton Rouge, Louisiana, was sentenced to four years probation, ordered to reside for a period of six months in a halfway house, assessed $100 and required to make restitution in the amount of $2,415 after pleading guilty to a two-count information charging him with misapplication of guaranteed student loan funds.

A joint investigation by ED/OIG and the FBI revealed that Coleman had either deposited approximately $20,000 in student loan checks in his personal bank account or endorsed them over to a car dealership to purchase automobiles. At the time these checks were negotiated, approximately 19 of the school's students had already withdrawn and were owed a refund. No refunds were ever made. (*Semiannual Report No. 34*, page 20)

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Charles M. Roper

NATIONAL THEATER OF THE DEAF

Chester, Connecticut

Charles M. Roper, former executive director of the National Theater of the Deaf (NTD), Chester, Connecticut, was sentenced in U.S. District Court, Hartford, Connecticut, to one year and one day in prison and ordered to pay $105,584 in restitution and a $100 special assessment. Following his release from prison, Roper will be on supervised release for three years.

Roper pled guilty in February 1997 to a one-count information charging theft after a joint ED/OIG and Postal Inspection Service investigation found evidence that Roper illegally used NTD funds to lead an extravagant lifestyle, which included gambling and the purchase of antique furniture and fine clothing. The National Theater of the Deaf, an internationally known, nonprofit theater group, receives funding from ED, the National Endowment for the Arts, the Lila Wallace Foundation, and private donors. (*Semiannual Report No. 34*, page 18)

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Jules Hairstylist, Inc., *T/A* Flair Beauty Institutes, Washington, D.C. Beauty Academy and Annapolis Beauty Academy

Oxon Hill, Maryland

IRVING LAWRENCE BERNFELD, former owner
CAROL SAPP, former employee

Lawrence Bernfeld, former owner of Jules Hairstylist, Inc., Oxon Hill, Maryland, was sentenced in federal district court, Richmond, Virginia, to three years probation and four months electronically monitored home confinement, and was ordered to obtain mental health treatment as approved by probation authorities and to make restitution of $12,465. Bernfeld made full restitution at the conclusion of the sentencing proceedings.

In addition, Carol Sapp, a former employee of Jules Hairstylist, Inc., was sentenced in federal district court, Richmond, Virginia, to one year's probation and ordered to make restitution of $12,465. Bernfeld and Sapp had previously pled guilty to a one-count information charging them with mail fraud in connection with their roles in a scheme to defraud ED's Pell Grant Program.

A joint OIG/FBI investigation developed evidence that Bernfeld failed to refund Pell Grant funds to ED for approximately 40 students who had withdrawn from classes before completing the course of instruction. Bernfeld directed his employees to create false documents to make it appear that the school did not owe refunds to ED. Sapp, from her home in North Berwick, Maine, identified the students who were due a tuition refund, and calculated how many additional hours needed to be added to the students' records in order to make it appear that either no tuition refund or a smaller refund was due. Sapp provided this information to Bernfeld, who had the students' records falsified to overstate their attendance. (*Semiannual Report No. 34*, page 21)

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Revell Training Center

Chicago and Melrose Park, Illinois

GEORGE C. TINDALL, former owner

George Tindall, the former owner of the Revell Training Center with locations in Chicago and Melrose Park, Illinois, was sentenced to five years of imprisonment and three years of supervised release and ordered to pay restitution in the amount of $936,975. Tindall pled guilty in April to one count of SFA fraud and one count of mail fraud resulting from a scheme to defraud the Department of Education and banks of approximately $936,000.

Tindall had a record of white-collar crimes — from writing bad checks, to posing as an income tax collector and eliciting money from private citizens, to devising a scheme to defraud individuals of $100,000 — prior to owning Revell. As a result of his prior record, Tindall received the maximum sentence under the sentencing guidelines. In addition to his sentence, Tindall was ordered to pay 25 percent of his gross monthly income toward restitution upon release from incarceration, as well as any earnings received during his incarceration.

During the period from July 1990 through April 1992, Tindall and Revell operations manager Carleton Lewis devised and participated in a scheme to defraud ED, First of America Bank, First Federal Bank and 438 students of approximately $936,975 in guaranteed student loan and Pell Grant funds. As part of the scheme, Tindall instructed RTC employees not to complete the required GSL and SLS Notice of Guarantee and Disclosure Statements listing the enrollment status of students, causing first and second checks to be issued by the banks.

Furthermore, Tindall ignored information and advice from RTC employees regarding his policy of depositing GSL checks without student endorsements for students who never started class or withdrew prior to the receipt of their checks. Tindall also requested Pell and Supplemental Educational Opportunity Grant

funds for students who never started classes or withdrew prior to the midpoint of the program. (*Semiannual Report No. 34*, page 19)

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Robert D. Barber, former director/admissions representative

EDMONDSON JUNIOR COLLEGE

Nashville, Tennessee

Robert D. Barber, former school director for Edmondson Junior College, entered into a pre-trial diversion agreement with the U.S. Attorney's office for the Middle District of Tennessee. Barber had previously been indicted in February 1996, on one count of conspiracy to defraud ED. A joint OIG/FBI investigation revealed that former employees at Edmondson Junior College, including Barber, conspired to defraud ED through coaching students to falsify Pell Grant and GSL applications, and by falsifying ability-to-benefit tests. The amount of the fraud was approximately $300,000. Eight former employees have already pled guilty to similar charges. Edmondson Junior College was a proprietary school formerly located in Nashville, Tennessee, owned and operated by Phillips Colleges, Inc. (*Semiannual Report No. 32*, page 26)

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Lamar S. Adams III

Houston, Texas

Lamar S. Adams III was sentenced in the Southern District of Texas, Houston Division, Houston, Texas, to 25 months imprisonment and 3 months supervised probation and was ordered to pay restitution of $12,454 and a $150 special assessment fee. The court ordered the sentence and probation to run concurrent with the 10-year state sentence.

Adams was indicted last period on five counts of mail fraud, five counts of student loan fraud and one count of wire fraud after a joint OIG/FBI investigation developed evidence that he had submitted seven fraudulent PLUS loan applications totaling approximately $120,000 to Texas Commerce Bank, Enterprise Bank (now Sterling Bank) and Houston National Bank, all in Houston, Texas. (*Semiannual Report No. 34*, page 26)

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California Institute)

Long Beach, California

RONALD VAN AVERY, owner

Ronald Van Avery, owner and operator of California Institute (CI), was sentenced in the Federal Central District of California to a six-year prison term and three years of probation. Previously, Avery was found guilty by a federal jury in Los Angeles, California, of five counts of wire fraud and two counts of false statements arising from a scheme that defrauded the Department of Education of at least $6.3 million. Avery retained guaranteed student loans that were required to be returned to commercial lenders because the students had not completed their courses of study at CI. Avery misstated CI's financial status and performance by causing the preparation of false financial statements that either omitted the refund liabilities or drastically understated them. Avery fraudulently retained CI's eligibility with the Department by making false statements to accreditation commissions, guaranty agencies and CPA's.

According to evidence presented at the trial, Avery recruited students from such locations as homeless shelters, unemployment offices and public housing projects, then retained the proceeds of the student aid for which they applied. When the students dropped out, Avery kept the loan proceeds which he was required by law to refund. During the trial, nine former students testified that Avery's actions denied them

access to further student aid, tarnished their credit histories, and caused extreme financial hardship. Avery used the millions of dollars to maintain an expensive and luxurious lifestyle, purchasing and improving several parcels of real estate and purchasing luxury cars and expensive jewelry. (*Semiannual Report No. 34*, page 30; *Semiannual Report No. 30*, page 27; and *Semiannual Report No. 32*, page 24)

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Ron Thomas School of Cosmetology and Barbering

Baltimore, Maryland

RON THOMAS AND VON THOMAS, owners
MARY PATRICIA KRESS, bookkeeper
MARY INNISS, financial aid clerk
MARY WERHY, office manager

Ron and Von Thomas, owners of Ron Thomas School of Cosmetology and Barbering, each pled guilty to wire fraud and aiding and abetting, as charged in a September 1996 indictment. The Thomases will be sentenced during the next reporting period for their part in a scheme that defrauded the U.S. Department of Education of $2.5 million in federal Pell grants.

Three other former officials of the Ron Thomas School of Cosmetology and Barbering pled guilty and were sen-tenced this period in U.S. District Court for the District of Maryland, Baltimore, Maryland, for their participa-tion in the scheme, as follows:

- Mary Patricia "Patti" Kress, former bookkeeper, pled guilty to one count of wire fraud. She was was sen-tenced to three years of probation with 6 months of home detention, and was ordered to pay a $5,000 fine along with a special assessment of $50.
- Mary Inniss, former financial aid clerk, pled guilty to one count of wire fraud. She was sentenced to 3 years of probation and 6 months of home detention, and was ordered to serve 300 hours of community service and to pay a $50 special assessment fee.
- Mary Wehry, former office manager, pled guilty to one count of wire fraud. She was sentenced to one year of probation and was ordered to pay a $50 special assessment fee.

(*Semiannual Report No. 33*, page 18)

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Oglala Lakota College

Kyle, South Dakota

ARLYNN KNUDSEN, former vice president for business affairs
JERRY DEAN GODFREY

Arlynn E. Knudsen, former vice president for business affairs at Oglala Lakota College (OLC), Kyle, South Dako-ta, as part of a plea agreement, pled guilty in the District of South Dakota, to conspiracy, theft of federal funds, theft from tribal organization, money laundering and asset forfeiture. Knudsen also agreed to waive indictment and plead guilty to an information charging income tax evasion. Knudsen agreed to fully cooperate with the United States and to provide truthful testimony before grand juries, at trial, and at other proceedings as required. Another participant in the conspiracy, Jerry D. Godfrey, pled guilty to conspiracy, theft of federal funds, theft from tribal organization, money laundering, and criminal forfei-ture. In addition, Godfrey agreed to waive an indictment and plead guilty to an information charging him with income tax evasion. Charges against Marjorie J. Godfrey, who was also indicted last period, were dropped this period.

A joint investigation by ED/OIG, the IRS, the FBI and the Department of Interior/OIG found evidence that from 1991 to 1994, a total of $2.6 million dollars in federal funds was embezzled from OLC, including ED funds (i.e., Pell Grant, College Work-Study, Supplemental Educational Opportunity Grant, Endow-

ment Challenge Grant, College Library Technology & Cooperative Grant, Indian Education Special Programs & Projects, Training Personnel for the Education of Individuals with Disabilities, Library Literacy, and Student Support Services funds).

The conspiracy involved OLC employees and other individuals who were not employed at OLC, including Godfrey. The investigation revealed that OLC checks were being written and deposited into bank accounts of fictitious businesses and/or companies that OLC did little if any business with. The embezzled funds were used to purchase real estate, automobiles, drugs, art work, and trips to Las Vegas for gambling and other entertainment. (*Semiannual Report No. 34*, page 22)

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Lamar S. Adams

Houston, Texas

Lamar S. Adams III was sentenced in the Southern District of Texas, Houston Division, Houston, Texas, to 25 months imprisonment and 3 years supervised probation, and was ordered to pay restitution totaling $12,454 and a special assessment fee totaling $150. The court ordered the sentence and probation to run concurrent with the 10-year state sentence.

A joint OIG/FBI investigation developed evidence that, during the period from August 1992 through May 1995, Adams submitted seven fraudulent PLUS loan applications totaling approximately $120,000 to Texas Commerce Bank (TCB), Enterprise Bank (now Sterling Bank) and Houston National Bank, all in Houston, Texas. The fraudulent applications contained Adams's deceased father's name and a false Social Security number (SSN) in the spaces reserved for borrower information, and variations of Adams's name and SSN in the student spaces, as well as a falsified name of the school certifying official. (*Semiannual Report No. 34*, page 27)

Abstract 3

CONGRESSIONAL TESTIMONY

(April 1 – September 30, 1997)

Department of Education Student Financial Assistance Information Systems Modernization

July 29, 1997

At the request of the House Subcommittee on Postsecondary Education, Training, and Life-Long Learning, Committee on Education and the Workforce, the Inspector General (IG) testified about student financial assistance (SFA) information systems modernization. The IG stated that the Department faces significant challenges in meeting the mandates of the Clinger-Cohen Act and in modernizing its SFA program systems. In his testimony, the IG addressed four principal issues that are integral to the success of the Department's systems modernization effort which need to be addressed to correct the weaknesses that have resulted in the current ineffective systems. The four principal issues are:

1) the need for a high degree of technical expertise on the part of Department managers and personnel in the area of information technology in order to design and manage the large and complex contracts that will be needed to modernize systems;

2) the need for well-designed contracts and rigorous monitoring of contractors by the Department;

3) the need for consistent and steady progress in efforts toward integration of SFA program information systems; and

4) the need to overcome data-integrity problems in the loan systems that will undermine the effectiveness of even the most modern integrated information system if not corrected.

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Department of Education's Loan Consolidation Process, Federal Direct Student Loan Program

September 18, 1997

The Inspector General testified before the House Subcommittee on Postsecondary Education, Training, and Life-Long Learning, Committee on Education and the Workforce, about the loan consolidation process of the Federal Direct Student Loan Program. Specifically, the IG's testimony focused on the circumstances surrounding the suspension of student loan consolidations and the urgent need in the student financial assistance programs for the Department to appoint a Chief Operating Officer who possesses experience in managing large computer-based financial services operations. The IG also stressed the need for qualified technical staff at the Department to write well-designed systems contracts and rigorously monitor those contracts.

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Department of Education's Eisenhower Mathematics and Science Education Program

July 8, 1997

The Deputy Assistant Inspector General for Audit (DAIGA) testified before the House Subcommittee on Oversight and Investigations, Committee on Education and the Workforce, about the Department of Education's Eisenhower Mathematics and Science Program. The DAIGA's testimony focused on the OIG's May 1992 management improvement report titled ***Improvements Needed to Assure the Dwight D. Eisenhower Mathematics and Science Education Program Meets the Objectives of National Education Goal 4 and the Eisenhower Act***. The DAIGA testified that during our audit work, we found that the program was implemented generally in accordance with the applicable regulations. However, the Department needed to improve its application review and approval process, its monitoring of state agency programs, and its performance reports and assessment of program results. Specifically, the OIG recommended that the Department:

1) establish and implement qualitative performance measures;

2) collect data showing the effect of the program on students' mathematics and science skills;

3) provide guidance to states on gathering and reporting annual performance data;

4) complete and disseminate the non-regulatory guidance to the states to assist them in improving students' mathematics and science skills;

5) develop an application format and procedures to review state applications that facilitate an assessment of the quality of the states' planned and completed programs; and

6) develop and implement a formal system for scheduling program reviews.

The DAIGA stated that since our report was issued, the requirement to develop performance indicators for professional development was included in the Improving America's Schools Act of 1994. These indicators should contain measurable outcomes in order to assess the results of the program.

Abstract 4

ACTION MEMORANDA

April 1 — September 30, 1997

Postsecondary Education

NO.	TITLE	ISSUED
1.	William D. Ford Federal Direct Loan Program Requirements for Funds Generated by Adjustments/Cancellations to Actual Disbursements Need Clarification	Apr-97
2.	Students with Defaulted Loans Continue to Receive Title IV Aid	Jun-97
3.	William D. Ford Federal Direct Consolidation Loan Program Borrowers Unable to Reach Customer Service Representatives	Jul-97
4.	Program Reviews Conducted for the Period October 1, 1996 — May 31, 1997	Jul-97
5.	Longstanding Problems in Processing Audit Reports and Resolving Audit Findings Continue to Plague the Department	Aug-97
6.	The Department Has No Method to Track the Effect of Six New Institutional and Program Eligibility (Gatekeeping) Provisions Included by Section 481 of the Higher Education Amendments of 1992 Are Not Tracked by the Department	Aug-97
7.	Educational Institution Solicitation of Lender to Provide Inducements	Aug-97
8.	Survey of the Recertification Effort	Aug-97
9.	Strategic Planning and Performance Measurement for Guarantor and Lender Oversight Service Activities Can Help Foster Achievement of an Efficient and Effective Federal Family Education Loan Program	Sep-97
10.	Consolidation of Defaulted Student Loans	Sep-97

11.	The Guarantor & Lender Oversight Service Can Further Improve its Audit Resolution Process	Sep-97
12.	FSEOG Institution Level Funding Can Be Improved	Sep-97

Systems

NO.	TITLE	ISSUED
1.	Addition of Year 2000 Issue to the Audit Workplan	Apr-97
2.	Independent Quality Control Units on Direct Loan Servicing Contracts	Apr-97
3.	Project EASI Requirements Documentation	Jun-97
4.	Status of the Department's Independent Computer System Security Reviews	Jun-97
5.	Direct Loan Servicing System Contracts	Aug-97

State and Local

NO.	TITLE	ISSUED
1.	Letter to the Subcommittee on Employment and Training, Committee on Labor and Human Relations Regarding our Work in Authorizing the Vocational Rehabilitation Act of 1973	Sep-97

Abstract 5

LEGISLATIVE PROPOSALS FOR REAUTHORIZATION OF THE HIGHER EDUCATION ACT

➤ Institutional Eligibility and Enforcement

The mechanisms for ensuring that only high-quality and well-administered schools participate in the SFA programs continue to need improvement in order to ensure the integrity of the programs. We recommend that Congress:

- legislate performance standards for vocational schools;
- eliminate Pell eligibility for high-default schools;
- restrict distance learning to academic degree programs;
- require schools to post a surety when appealing loss of eligibility due to high-default rates;
- legislate separate statutory requirements for vocational trade schools; and
- eliminate the 25-year-old requirement for Pell advance funding.

➤ Student Eligibility

To ensure that students are receiving appropriate amounts of federal aid, we recommend that Congress:

- require verification of applicants' income data with IRS; and
- limit professional judgment by financial aid administrators.

➤ Loan Programs

Effective management of the loan programs is dependent upon accurate and timely data. Therefore, we recommend that Congress:

- require annual reconciliation of NSLDS data;
- change the definition of loans in repayment; and
- standardize accounting and reporting for guaranty agency reserve funds.

To ensure that students are receiving their refunds, we recommend that Congress:

- require certification of refund liabilities by vocational trade schools; and
- require discharge of loans to the extent of unpaid refunds for student victims.

To protect the integrity and reduce the cost of the Consolidation and PLUS loan programs, we recommend that Congress:

- prohibit the consolidation of defaulted loans; and
- require the determination of the ability to repay PLUS loans and require joint parent/student liability.

➤ Law Enforcement

Because of the length of time it takes to prepare complex court cases against institutions that defraud the SFA programs, we recommend that Congress:

- require that SFA records be retained for five years and that certain original records be retained for the duration of the required retention period; and
- apply the extended statute of limitation (ten years) for financial institution fraud to the Federal Direct Loan Program.

RECOMMENDATIONS DESCRIBED IN PREVIOUS *SEMIANNUAL REPORTS* ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the Inspector General Act requires a listing of each report resolved before the commencement of the reporting period for which management has not completed corrective action. The reports listed below are OIG internal and nationwide audit reports and management improvement reports.

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
11-20202	*CHANGES TO IMPACT AID PROGRAMS' SITE REVIEW PROCESS SHOULD IMPROVE EFFICIENCY AND ASSURE BETTER USE OF PROGRAM FUNDS*	*09/30/94*	*4,382,000*	*26*	*85*
OFFICE OF POSTSECONDARY EDUCATION					
11-00010	*OFFICE OF STUDENT FINANCIAL ASSISTANCE DID NOT ASSURE THAT ALL INSTITUTIONS SUBMITTED AUDIT REPORTS OR THAT IT RECOVERED ALL MISSPENT FUNDS*	*09/30/93*	*33,800,000*	*24*	*63*
11-90040	*THE INSTITUTIONAL ELIGIBILITY PROCESS DOES NOT PROVIDE ADEQUATE ASSURANCE THAT ONLY ELIGIBLE SCHOOLS PARTICIPATE IN THE TITLE IV PROGRAMS*	*09/30/93*	*482,000*	*22*	*6*
*92-05***	*ED NEEDS TO STRENGTHEN STUDENT LOAN CURE PROCEDURES*	*09/30/93*	*154,000,000*	*24*	*12*
*92-10***	*STRICTER STANDARDS NEEDED FOR GRANTING OF FORBEARANCES*	*09/30/93*	•	*25*	*3*
*92-13***	*ED NEEDS TO CHANGE THE LEGISLATIVE DEFINITION OF LOANS IN REPAYMENT*	*01/31/94*	•	*25*	*5*
05-20075	*EFFECTIVENESS OF THE REGIONAL INSTITUTIONAL REVIEW BRANCHES' MONITORING OF INSTITUTIONS PARTICIPATING IN THE STUDENT FINANCIAL ASSISTANCE PROGRAMS*	*08/31/94*	•	*28*	*19*
17-30302	*FINANCIAL AUDIT: FEDERAL FAMILY EDUCATION LOAN PROGRAM'S FINANCIAL STATEMENTS FOR FISCAL YEARS 1993 AND 1992*	*10/31/94*	•	*29*	*16*
11-30001	*INCONSISTENT INSTITUTIONAL PELL GRANT REPORTING RESULTS IN SIGNIFICANT EXPENDITURE DISCREPANCIES*	*07/31/95*	•	*29*	*15*
04-40100	*HELPING TO ASSURE EQUALIZED EDUCATIONAL OPPORTUNITIES WITH HEA, TITLE III INSTITUTIONAL AID FUNDS - GLOBAL PERFORMANCE MEASURES NEEDED*	*08/31/95*	•	*31*	*11*
17-30305	*ANNUAL INTEREST GRANTS: IMPROVING THE PROCESS FOR PAYING THE REMAINING GRANTS*	*02/29/96*	*5,025,272*	*31*	*14*
11-40001	*FOLLOW-UP REVIEW ON SELECTED GATEKEEPING OPERATIONS*	*02/29/96*	•	*31*	*13*
05-40005	*ED NEEDS TO CONSIDER IMPLEMENTING CHANGES FOR MONITORING LENDERS AND SERVICERS*	*03/31/96*	•	*32*	*10*
05-50008	*EFFECTIVENESS AND EFFICIENCY OF DEBT COLLECTION SERVICE - AREAS RELATED TO INTERNAL OPERATIONS*	*04/30/96*	•	*32*	*12*
04-38000	*LESSONS LEARNED FROM RTC'S HANDLING OF FEDERAL FAMILY EDUCATION LOANS ...*	*08/31/96*	•	*32*	*9*
04-60001	*PROCESS ENHANCEMENTS IN THE HEA, TITLE III, INSTITUTIONAL AID PROGRAM WOULD INCREASE PROGRAM EFFICIENCY, DESPITE LIMITED RESOURCES*	*08/31/96*	•	*32*	*9*
06-30004	*MANAGING FOR RESULTS: REVIEW OF PERFORMANCE-BASED SYSTEMS AT SELECTED ACCREDITING AGENCIES*	*08/31/96*	•	*31*	*7*
07-48051	*CLOSED SCHOOLS: $2.4 BILLION UNAUDITED*	*06/30/96*	•	*31*	*13*
06-50010	*THE ELECTRONIC DATA EXCHANGE: A SECURITY REVIEW IS NEEDED*	*12/31/96*	•	*33*	*12*
03-60001	*REVIEW OF THE MANAGEMENT SYSTEMS AND STRUCTURE OF THE U.S. DEPARTMENT OF EDUCATION, OFFICE OF POSTSECONDARY EDUCATION, OFFICE OS STUDENT FINANCIAL ASSISTANCE PROGRAMS*	*03/31/97*	•	*33*	*29*
09-38058	*THE DEPARTMENT SHOULD CONTINUE ITS EFFORTS TO IMPROVE THE ACCURACY OF ITS STUDENT LOAN DATABASE*	*03/31/97*	•	*33*	*13*

REPORT NUMBER	AUDITEE/TITLE	DATE RESOLVED	TOTAL MONETARY FINDINGS	SEMIANNUAL REPORT NO.	PAGE
OFFICE OF THE CHIEF FINANCIAL OFFICER					
11-00333	*GREATER EMPHASIS NEEDED TO DEOBLIGATE UNEXPENDED CONTRACT FUNDS AND CLOSE OUT CONTRACTS ON TIME*	*03/31/94*	*7,500,000*	*26*	*17*
17-40302	*FINANCIAL STATEMENT AUDIT: U.S. DEPARTMENT OF EDUCATION FEDERAL FAMILY EDUCATION LOAN PROGRAM FOR THE YEARS ENDED SEPTEMBER 30, 1994 AND 1993*	*08/31/95*	*	*31*	*12*
17-48320	*FINANCIAL STATEMENT AUDIT OF THE U.S. DEPARTMENT OF EDUCATION WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM*	*09/30/95*	*	*30*	*20*
17-40303	*THE REPORT OF INDEPENDENT ACCOUNTANTS ON THE U.S. DEPARTMENT OF EDUCATION FISCAL YEAR 1995 DEPARTMENT-WIDE FINANCIAL STATEMENTS*	*03/31/97*	*	*33*	*14*

* Non-monetary findings only
** Management improvement report

ED/OIG Reports on Education Department Programs and Activities

(April 1, 1997 — September 30, 1997)

Section 5(a)(6) of the Inspector General Act requires a listing of each report completed by OIG during the reporting period. A total of 28 reports were completed by ED/OIG auditors. These reports are listed below.

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF POSTSECONDARY EDUCATION						
01-58052	EDUCATION LOAN SERVICES, INC. FAILED TO CALCULATE INTEREST REBATES OWED TO THE SECRETARY ESTIMATED AT $1,014,000	MA	SEP-97	1,014,000		
01-70002	UNIVERSITY OF MASSACHUSETTS - AMHERST	MA	SEP-97	•		
04-70002	AUDIT OF THE WILLIAM D. FORD DIRECT LOAN PROGRAM ADMINISTERED BY KEISER COLLEGE OF TECHNOLOGY	FL	MAY-97	•		
05-60010	CONSUMER ELECTRONICS TRAINING CENTER, CHICAGO ILLINOIS AUDIT OF THE ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS AUDIT CONTROL	IL	APR-97	186,720		
05-70005	ACADEMY OF COURT REPORTING, CLEVELAND, OHIO AUDIT OF THE ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	OH	JUL-97	•		
05-70006	INTERSTATE BUSINESS COLLEGE FARGO, NORTH DAKOTA AUDIT OF THE ADMINISTRATION OF THE WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM	ND	JUL-97	•		
06-60004	FINANCIAL AID ADMINISTRATORS USE OF PROFESSIONAL JUDGEMENT	DC	JUL-97	•		
06-60006	ELIMINATING ADVANCE FUNDING WOULD ENHANCE THE INTEGRITY OF THE FEDERAL PELL GRANT PROGRAMS	DC	AUG-97	•		
06-70003	PROFESSIONAL JUDGEMENT AT ST. LOUIS UNIVERSITY	MO	JUL-97	2,599,709		
07-70003	TECHNICAL TRADES INSTITUTE	CO	AUG-97	13,463		
09-60007	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY UNIVERSITY OF CALIFORNIA, RIVERSIDE	CA	APR-97	•		
09-70007	AUDIT OF THE DIRECT LOAN PROGRAM ADMINISTERED BY THE UNIVERSITY OF ADVANCING COMPUTER TECHNOLOGY (FORMERLY CAD INSTITUTE)	AZ	AUG-97	•		
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION						
04-70001	STATE AND LOCAL EDUCATION AGENCIES NEED MORE TECHNICAL ASSISTANCE TO TAKE FULL ADVANTAGE OF FLEXIBILITY PROVISIONS OF TITLE XIV OF THE IMPROVING AMERICA'S SCHOOLS ACT	DC	AUG-97	•		

ACN	AUDITEE/REPORT TITLE	STATE	ISSUED	QUESTIONED COSTS (excluding unsupported)	UNSUPPORTED COSTS	BETTER USE OF FUNDS
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES						
09-53006	*A NEW FORMULA IS NEEDED TO EQUITABLY ALLOCATE VOCATIONAL REHABILITATION PROGRAM FUNDS TO STATES*	*WA*	*JUL-97*	•		
09-60004	*FOUR FACTORS MAY HAVE CONTRIBUTED TO THE HIGH EMPLOYMENT OUTCOME RATE AT THE TEXAS REHABILITATION COMMISSION*	*CA*	*SEP-97*	•		
11-50201	*OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES SECRETARIAL REVIEW PROCESS IN NEED OF CHANGE*	*DC*	*AUG-97*	•		
OFFICE OF BILINGUAL EDUCATION AND MINORITY LANGUAGE AFFAIRS						
04-60152	*REVIEW OF MONITORING CONTROLS USED TO ENSURE FULFILLMENT OF TITLE VII BILINGUAL EDUCATION GRANT PROGRAM OBJECTIVES*	*DC*	*JUN-97*	•		
OFFICE OF CHIEF FINANCIAL OFFICER						
01-60008	*THE MASSACHUSETTS CORPORATION FOR EDUCATIONAL TELECOMMUNICATIONS MUST BE A RESTRICTED INDIRECT COST RATE FOR CHARGING INDIRECT COSTS TO FEDERAL GRANTS*	*MA*	*SEP-97*		*36,138*	*991,552*
03-50200	*STAR SCHOOLS PROGRAM GRANTEE'S PROJECT MANAGEMENT WAS SERIOUSLY DEFICIENT, AN AUDIT OF THE STAR SCHOOLS AS ADMINISTERED BY THE CENTRAL EDUCATIONAL TELECOMMUNICATIONS NETWORK*	*VA*	*SEP-97*	*316,457*	*2,077,767*	
OFFICE OF EDUCATIONAL RESEARCH AND IMPROVEMENT						
17-60002	*U.S. DEPARTMENT OF EDUCATION RECOMMENDATIONS TO IMPROVE MANAGEMENT CONTROLS AND OPERATIONS RESULTING FROM MATTERS NOTED DURING OUR FISCAL YEAR 1996 FINANCIAL STATEMENT AUDIT*	*DC*	*AUG-97*		•	

• Non-monetary findings only

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS[1]

		NUMBER	QUESTIONED	UNSUPPORTED[2]
A.	For which no management decision has been made by the commencement of the reporting period (as adjusted)	48	$ 322,535,687	$ 29,881,387
B.	Which were issued during the reporting period	6	6,244,254	2,113,905
	Subtotals (A + B)	54	$ 328,779,941	$ 31,995,292
C.	For which a management decision was made during the reporting period	19	$ 129,441,052	$ 293,815
	(i) Dollar value of disallowed costs		$ 128,527,626	$ 27,795
	(ii) Dollar value of costs not disallowed		$ 913,426	$ 266,020
D.	For which no management decision has been made by the end of the reporting period	35	$ 199,338,889	$ 31,701,477
E.	For which no management decision was made within six months of issuance	26	$ 161,951,917	$ 25,822,274

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

[2] *Included in questioned costs.*

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS[1]

	NUMBER	DOLLAR VALUE
A. For which no management decision has been made by the commencement of the reporting period (as adjusted)	7	$ 144,205,000
B. Which were issued during the reporting period	2	32,793,546
Subtotals (A + B)	9	$ 176,998,546
C. For which a management decision was made during the reporting period	4	$ 153,891,994
(i) Dollar value of recommendations that were agreed to by management		$ 116,709,884
(ii) Dollar value of recommendations that were not agreed to by management		$ 37,182,110
D. For which no management decision has been made by the end of the reporting period	5	$ 23,106,552
E. For which no management decision was made within six months of issuance	4	$ 22,115,000

[1] *None of the audits reported in this table was performed by the Defense Contract Audit Agency.*

UNRESOLVED REPORTS ISSUED PRIOR TO APRIL 1, 1997

Section 5(a)(10) of the Inspector General Act requires a listing of each report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

REPORT NUMBER	AUDITEE/TITLE	ST	DATE ISSUED	TOTAL MONETARY FINDINGS	REASONS OVERDUE	PROJECTED MANAGEMENT DECISION	SEMIANNUAL REPORT NO.	PAGE NO.
03-14078	SOJOURNER-DOUGLAS COLLEGE	MD	07/05/91	114,206	01	12/31/97	**	
03-14079	SOJOURNER-DOUGLAS COLLEGE	MD	07/05/91	243,300	01	12/31/97	**	
09-10007	WESTERN TRUCK SCHOOL	CA	09/10/92	8,834,503	01	12/31/97	25	78
07-23545	MISSOURI STATEWIDE	MO	04/01/93	1,048,768	01	***	**	
05-20007	AMERICAN CAREER ACADEMY	MI	05/27/93	2,003,658	01	12/31/97	27	17
09-10005	CALIFORNIA STUDENT AID COMMISSION	CA	09/10/93	41,100,000	01	12/31/97	27	17
03-20205	INDEPENDENCE CENTER OF NORTHERN VIRGINIA	VA	09/17/93	173,742	04	12/31/97	**	
06-10007	AVALON VOCATIONAL TECHNICAL INSTITUTE	TX	09/17/93	8,795,000	01	12/31/97	27	17
09-33114	STATE OF CALIFORNIA	CA	12/24/93	4,191,032	01	12/31/97	28	18
07-33123	MISSOURI STATEWIDE	MO	03/07/94	187,530	***	***	**	
03-33154	COMMONWEALTH OF PENNSYLVANIA	PA	07/05/94	31,656,831	05	03/31/98		
05-30010	NORTHSTAR GUARANTEE INCORPORATED	MN	08/16/94	619,287	01	12/31/97	29	31
04-43134	FLORIDA STATEWIDE	FL	12/05/94	615,996	05	***		
01-46037	COMMONWEALTH OF MASSACHUSETTS	MA	02/01/95	2,173,536	01,03,04	03/31/98	30	16
02-56113	VIRGIN ISLANDS DEPARTMENT OF EDUCATION	VI	02/17/95	10,375,000	05	***	30	17
05-40007	REPORT ON THE TRANSITIONAL GUARANTY AGENCY'S ROLE IN GUARANTY AGENCY TRANSITION	MN	06/02/95	*	01	***	**	
03-47090	COMMONWEALTH OF PENNSYLVANIA	PA	07/20/95	50,689,820	05	03/31/98	**	
04-53670	FLORIDA STATEWIDE	FL	10/04/95	2,855,402	05	***		
05-60003	CANNELLA SCHOOL OF HAIR DESIGN, CHICAGO, ILLINOIS, AUDIT OF ADMINISTRATION OF STUDENT FINANCIAL ASSISTANCE PROGRAMS	IL	08/16/96	4,408,620	01	12/31/97	33	13
04-50201	THE TENNESSEE DIVISION OF REHABILITATION SERVICES SHOULD IMPROVE ITS ADMINISTRATION OF ESTABLISHMENT PROJECTS	TN	09/27/96	367,131	***	***	33	8
05-40001	CLOSE-OUT AUDIT OF THE CHICAGO INSTITUTE OF TECHNOLOGY	IL	10/08/96	10,079,439	01	12/31/97	34	11
01-50091	ROXBURY COMMUNITY COLLEGE DISBURSED $2.2 MILLION TO STUDENTS ENROLLED IN AN INELIGIBLE ENGLISH AS A SECOND LANGUAGE PROGRAMS	MA	10/29/96	2,253,564	01	12/31/97	34	10
03-60006	REVIEW OF THE COOPERATIVE AGREEMENT FOR THE NATIONAL CENTER FOR ADULT LITERACY AWARDED TO THE UNIVERSITY OF PENNSYLVANIA FOR THE PERIOD NOVEMBER 1, 1992 THROUGH MARCH 31, 1996	PA	01/28/97	*	***	***	34	19
04-60147	REVIEW OF SELECTED ASPECTS OF THE KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY'S ADMINISTRATION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM	KY	02/18/97	1,263,251	***	***	34	9
06-50001	REVIEW OF ACCREDITING AGENCIES' MONITORING OF MEMBER INSTITUTIONS	DC	02/18/97	*	01	12/31/97	34	9
06-50005	RESULT OF CONTRACT CLOSE-OUT AUDIT, ARKANSAS DEPARTMENT OF EDUCATION	AR	02/26/97	17,301	04	***	34	37

NOTES

* Non-monetary findings only
** Not individually written up
*** Information not provided by POC

REASON CODES FOR REPORTS OVER SIX MONTHS OLD

01 - Administrative delays
02 - Delay in receiving auditee comments or additional information from auditee
03 - Delay in receiving additional information from non-Federal auditor.
04 - Lack of staff
05 - Cooperative Audit Resolution and Oversight Initiative (CAROI) pilot State

STATISTICAL SUMMARY

October 1, 1996 — September 30, 1997

	Six-Month Period Ending 9/30/97	Fiscal Year Ending 9/30/97
OIG AUDIT REPORTS ISSUED	**20**	**48**
- Questioned Costs	$ 4,130,349	$ 17,074,024
- Unsupported Costs	$ 2,113,905	$ 8,403,106
- Recommendations for Better Use of Funds	$ 32,793,546	$ 141,793,546
OIG AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	**32**	**54**
- Questioned Costs Sustained.	$122,315,999	$ 210,972,471
- Unsupported Costs Sustained	0	$ 9,200
- Additional Disallowances Identified by Program Managers	$ 1,215,818	$ 1,215,818
- Management Commitment to Better Use of Funds	$116,709,884	$ 116,709,884
NON-FEDERAL AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	**12**	**26**
- Questioned Costs Sustained.	$ 6,183,832	$ 6,335,461
- Unsupported Costs Sustained	$ 27,795	$ 82,622
- Additional Disallowances Identified by Program Managers	$ 27,378,037	$ 27,408,578
INVESTIGATIVE CASE ACTIVITY		
- Cases Opened	163	246
- Cases Closed	73	147
- Cases Active at End of Period	399	399
- Cases Referred for Prosecution	39	81
- Accepted	30[1]	66
- Declined	9	15

[1] *Includes 3 civil acceptances.*

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STATISTICAL SUMMARY

October 1, 1996 — September 30, 1997

	Six-Month Period Ending 9/30/97	Fiscal Year Ending 9/30/97
INVESTIGATION RESULTS		
- Indictments/Informations	26[2]	71
- Convictions/Pleas	27[3]	70
- Fines Ordered	$ 554,300	$ 565,100
- Restitutions Ordered	$ 6,443,819[4]	$ 7,712,309
- Restitution Payments Collected[5]	$ 468,588	$ 2,251,000
- Civil Settlements (number)	103[6]	
- Civil Settlements	$ 5,111,935[7]	$ 5,278,522
- Civil Judgments	$ 57,670	$ 57,670
- Recoveries	$ 22,085	$ 22,085
- Forfeitures/Seizures	$ 19,700	$ 224,700
DEBARMENT/SUSPENSION ACTIVITIES		
- OIG Requests for Departmental Action	26	41
- Individuals/Entities Debarred/Suspended	16	22

[2] *Includes 5 actions that were not reported in our last* Semiannual Report.

[3] *Includes 4 actions that were not reported in our last* Semiannual Report.

[4] *Includes $18,511 not reported in our previous* Semiannual Report.

[5] *Dollars collected by Department of Justice.*

[6] *First time category reported.*

[7] *Includes $135,000 not reported in our last* Semiannual Report.

GLOSSARY OF ABBREVIATIONS

ACN	audit control number
ATB	ability-to-benefit
CAROI	Cooperative Audit Resolution and Oversight Initiative
CFO	Chief Financial Officer
DOJ	Department of Justice
ED	U.S. Department of Education
EDCAPS	Education Department Central Automated Processing System
ESEA	Elementary and Secondary Education Act
FAFSA	Free Application for Student Aid
FBI	Federal Bureau of Investigation
FFELP	Federal Family Education Loan program
FY	fiscal year
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
IDEA	Individuals with Disabilities Education Act
OIG	Office of Inspector General
OMB	Office of Management and Budget

GLOSSARY OF ABBREVIATIONS
(continued)

OPE	Office of Postsecondary Education
SFA	student financial assistance/student aid
ST	state
VA	Department of Veterans Affairs

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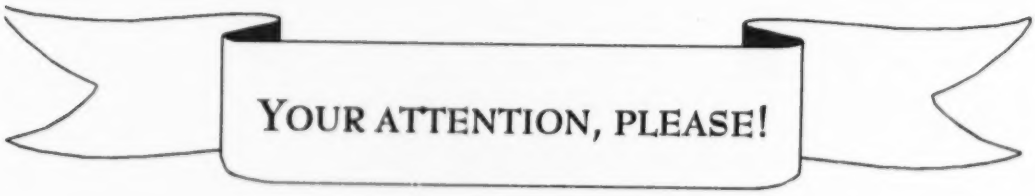

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